

Our Mission

Huron Valley Schools and our community will provide a premier education which prepares all students to thrive in a global society.

March 25, 2010

House Education Committee
Testimony on House Bill No. 5963

As Superintendent of Huron Valley Schools I am advising you of my strong concerns with House Bill No. 5963. My concerns include the following:

1. Fund balance under discussion is grossly overstated

Fund balance includes:

- reserved,
- designated and
- unreserved/undesignated

funds. Only the unreserved/undesignated funds are available to address contingency issues. Unless the legislation intends to require districts to spend down those portions of fund balance that are already legally spent (reserved) or board committed (designated) the estimated amount under discussion is grossly overstated.

2. Fund balance maximizes credit ratings, reducing interest expense to taxpayers

Unreserved fund balance is a key factor in determining a credit rating from the rating agencies. In the Standard & Poor's document "What it Takes for School Districts to Make the AAA Grade," page 4 they state:

"When examining a school district's financial position, we also review reserve levels, both in terms of policies and **trends**. We look to the **unreserved** general fund balance as a percentage of operating expenditures to determine the size of the reserves in relation to the total budget."

The credit rating directly impacts the interest rate on borrowing and therefore the cost of borrowing to taxpayers in the community.

3. Fund balance provides critical cash flow reducing borrowing costs to districts

Fund balance provides temporary cash flow to cover costs of employees and purchases for the period July 1- October 20th pending the receipt of our district's first state aid payment for the year. State Aid represents over 70% of our total general fund revenue therefore with delayed state aid payments and without a fund balance we, like most districts, would be forced to borrow.

Over approximately a ten year period, beginning in the 1990's, Huron Valley attempted to grow the unreserved/undesignated fund balance from a deficit to 10%. The attached document shows for just three of these years, with minimal fund balance, the district incurred over \$153,000 in interest expense, which is the equivalent cost of approximately two teachers at that time. By maintaining (not adding to) this fund each year, we have avoided additional interest expense, an expense that has zero impact on student learning.

Fund balance represents a very limited level of cushion. With a \$95 million budget, Huron Valley spends approximately \$365,000 per business day. Based on our audited financial statements as of June 30, 2009 this represents:

- 14 days of cash flow reserves based on the unreserved/undesignated fund balance
- 40 days of cash flow reserves based on total fund balance.

4. Fund balance caps expand inequity in funding

Fund balance caps of 15% perpetuate and expand an already inequitable funding formula for children in Michigan. Low funded districts, in many cases have found it necessary to maintain a higher fund balance to avoid unplanned, emergency cuts simply because they are already operating with very limited programming. Legislation should be focused on resolving not expanding the current inequity in funding.

5. Fund balance caps are not based on research

Fund balance of 15% may be appropriate in some districts but not in all districts. I am not aware of research that supports 15%, or any percentage, is appropriate for all districts.

6. Fund balance with prudent budgeting techniques still cannot be projected with certainty

Fund balance is impacted by budget variables that are outside of a district's control and sometimes unknown until well into the fiscal year (example September student enrollment). A district may experience a significant penalty based on this legislation despite prudent budgeting techniques due to a change in variables mid-year that the district could not have projected nor controlled.

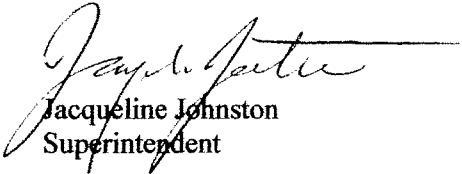
7. Fund balance provides stability to children

Fund balance is our most critical resource in providing stability to programs for students during increasingly unstable economic times. The ability to avoid mid-year cuts to programs is increased with an adequate fund balance.

Thank you for allowing me the opportunity to speak with you today to voice what I believe are critical concerns to House Bill 5963. I certainly recognize the difficult issues that you face and ask that you support local schools by allowing us the ability to provide short term certainty to our children while we as adults address the very real and difficult challenges facing this state.

Thank you for the work you do on behalf of the children of Michigan.

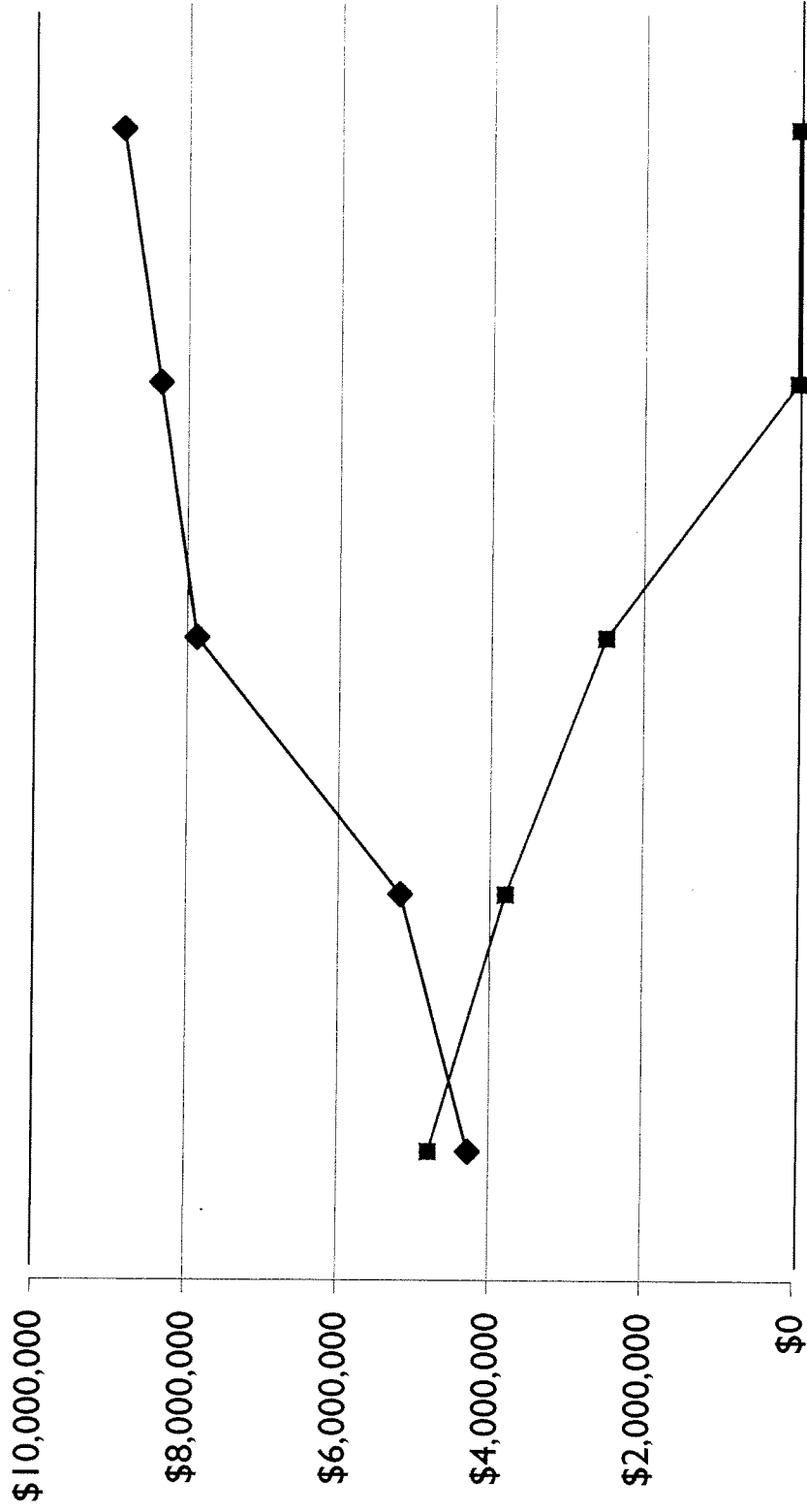
Sincerely,



Jacqueline Johnston
Superintendent

Huron Valley Schools

Stabilization / Borrowing / Interest Expense



	99/00	00/01	01/02	02/03	03/04
Stabilization	\$4,274,000	\$5,184,000	\$7,870,749	\$8,359,913	\$8,867,093
Borrowing	\$4,800,000	\$3,800,000	\$2,500,000	\$0	\$0
Interest Expense	\$82,979	\$32,000	\$0	\$0	\$0

